

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 AID-05 CIAE-00 EB-08 FRB-03
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TO SECSTATE WASHDC 3857
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USDOC FOR BEWT

E.O. 11652: N/A
TAGS: EEWT, EQIP, UR, JA
SUBJECT: JAPANESE FIRMS AND OWENS-ILLINOIS WIN
\$70 MILLION SOVIET COLOR TELEVISION CONTRACT

REF: MOSCOW 8339 (NOTAL)

SUMMARY: CORNING GLASS HAS LOST ITS BID FOR
PRODUCTION OF COLOR TELEVISION GLASS ENVELOPES
AND TUBES (REFTTEL) TO A GROUP OF JAPANESE FIRMS
LED BY KANEMATSU-GOSHO (K-G), WHICH STATES A
\$70 MILLION AGREEMENT WILL BE SIGNED JULY 12 IN
MOSCOW. ACCORDING TO K-G, OWENS-ILLINOIS WON
\$15 MILLION SHARE OF OVERALL AWARD. PLANT IS TO
BE ERRECTED AT VORONEZH, WITH SHIPMENT OF EQUIPMENT
COMPLETE BY END OF 1980, ERECTION IN 1981 AND FIRST
PRODUCTION IN 1982. CAPACITY OF 1.5 MILLION PIECES
PER ANNUM WILL BE REACHED IN 1985, ACCORDING TO K-G.
END SUMMARY.

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1. THREE OFFICIALS OF KANEMATSU-GOSHO LTD., MAJOR
JAPANESE TRADING COMPANY, INCLUDING MANAGER OF
MOSCOW REPRESENTATIONAL OFFICE, CALLED ON E/C
COUNSELOR JUNE 30 TO ANNOUNCE THAT K-G AND OWENS-
ILLINOIS HAVE WON \$70 MILLION AWARD COMPOSED OF TWO
PARALLEL CONTRACTS TO ERECT PLANT IN VORONEZH
WHICH WILL PRODUCE EQUIPMENT FOR SOVIET COLOR TELE-

VISION INDUSTRY. THEY SAID THAT K-G WAS REPRESENTING

A NUMBER OF JAPANESE FIRMS, INCLUDING, PRINCIPALLY NIPPON ELECTRIC GLASS CO., WHICH WOULD SIGN \$55 MILLION CONTRACT. THE REMAINING \$15 MILLION WOULD GO TO OWENS-ILLINOIS. TWO SEPARATE CONTRACTS ARE TO BE SIGNED IN MOSCOW JULY 12 WITH MINISTRY OF ELECTRONIC INDUSTRIES AND FOREIGN TRADE ORGANIZATION TEKNO-PROMIMPORT.

2. K-G OFFICIALS ALSO STATED THAT RCA WOULD LICENSE THE MANUFACTURE OF COLOR TUBES BY SEPARATE AGREEMENT (REFTEL) BUT DID NOT INDICATE IF THESE NEGOTIATIONS HAVE BEEN CONCLUDED.

3. THE JAPANESE BUSINESSMEN CLAIMED THAT THE TERMS FOR THE AGREEMENT WERE "CASH", WITH NO COMPENSATION OR COUNTER PURCHASES. CORNING GLASS HAD BEEN THE MAIN COMPETITOR, THEY NOTED. THE TWO CONTRACTS CALL FOR ERECTION OF A PLANT TO PRODUCE 1.5 MILLION "PANELS" AND 1.5 MILLION "FUNNELS" ANNUALLY. (CORNING OFFICIALS EARLIER HAD DESCRIBED PARTS AS GLASS ENVELOPES AND TUBES, RESPECTIVELY.) EQUIPMENT WILL BE SUPPLIED BY 1980, WITH ERECTION OF THE PLANT IN 1981 BY A TEAM OF ABOUT 120 JAPANESE AND 30 OWENS-ILLINOIS SPECIALISTS. LIMITED OFFICIAL USE

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PRODUCTION IS TO BEGIN AND REACH 30 OF CAPACITY IN 1982, WITH FULL CAPACITY TO BE REACHED IN 1985. THE K-G REPRESENTATIVES NOTED THAT THE USSR PRESENTLY PRODUCES ABOUT 1.5 MILLION COLOR TELEVISION SETS PER YEAR. THUS NEW PLANT WILL THEREFORE REPRESENT A DOUBLING OF CURRENT CAPACITY.

4. THE K-G OFFICIALS SAID THAT OWENS WOULD GUARANTEE THE CONSTRUCTION PROCESS AND THE QUALITY OF THE PRODUCT. THE GUARANTEE OF THE EQUIPMENT USED IN THE BUILDING WILL BE MADE BY K-G.

5. THE JAPANESE BUSINESSMEN SAID THAT A SENIOR OWENS OFFICIAL WOULD BE COMING FOR THE CONTRACT SIGNING. THEY INVITED THE EMBASSY TO OBSERVE THE SIGNING.

6. COMMENT: THESE CONTRACT NEGOTIATIONS HAVE A LONG HISTORY, AND CORNING HAD RECENTLY BEEN ENCOURAGED TO BELIEVE IT STILL HAD A CHANCE TO WIN THE CONTRACT. WE NOTE THAT THE CORNING PRICE TAG SEEMS TO HAVE BEEN SLIGHTLY HIGHER THAN THE FIGURE CITED BY K-G (\$75 MILLION INSTEAD OF \$70

MILLION) AND THAT BOTH CORNING AND K-G SPOKE OF SOVIETS PAYING "CASH" FOR THIS AGREEMENT. THIS APPEARS TO BE ANOTHER INDICATION WHERE THE JAPANESE HELD FIRM ON A DOLLAR-PRICED BID IN ORDER TO WIN A CONTRACT IN THE USSR, DESPITE THE DEPRECIATION OF THE COLLAR IN TERMS OF THE YEN.

7. THE WILLINGNESS TO MAKE THIS OUTLAY, INCLUDING AN APPARENT COMMITMENT TO CONCLUDE A DEAL OF ROUGHLY EVEN PROPORTIONS FOR THE COLOR TUBES THEMSELVES, INDICATES A SERIOUS SOVIET COMMITMENT TO SUPPLY ITS PUBLIC WITH COLOR TELEVISION. THE BLACK-AND-WHITE MARKET HERE IS SATURATED. THE SOVIET LEADERSHIP, OF COURSE, CAN PRESUMABLY LIMITED OFFICIAL USE

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PERCEIVE A NUMER OF ADVANTAGES IN PARTIALLY SATISFYING CONSUMER DEMAND, SOAKING UP EXCESS

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ACTION EUR-12

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RUBLES AND DOUBLING PRESENT OUTPUT OF A COMMODITY WHICH WILL ENHANCE ITS OWN ABILITY TO "COMMUNICATE" IN A ONE-WAY FASHION WITH THE POPULATION. TOON

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